

FORIGN DIRECT INVESTMENTS IN ROMANIA DURING THE PANDEMIC

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Abstract

Foreign direct investments have been considered one of the most important source of economic development for the countries throughout the world. As such, the national governments became more and more open to this phenomenon and created all the needed infrastructure to increase the movement of foreign capitals. For Romania, the FDIs offered the possibility to trade internationally, to be an important player, especially inside the European Union. The COVID-19 pandemic is the second big crisis that the Romanian economy has had to overcome, after the financial crisis from 2007, when the country lost more foreign investments than any other country in the region. The current crisis, although has impacted the global economic activity, in Romania's case, there were not all bad news, as the investors, although cautious, they remained within the economy to conduct their business.

Keywords: foreign direct investments, pandemic, Romanian economy

JEL Codes: F21, F23, F63

Introduction

For the Romanian economy, the foreign direct investments (FDIs), are one of the most important source for financing the development and strategic programs that the government has to implement. In fact, the FDIs helped Romania to enter the modern era, in terms of economic development, contributed to its integration within the European structures and thus giving it access to free trade, a wider market and technology transfer. The undeniable benefits of investments consist of lower unemployment rates, higher revenues for the local budgets as well as the national one, the training programs for the company's employees and the know-how the foreign company brings to the table. The host country also has an advantage in the future, as there are no budgetary expenses for the human resources' training.

Foreign direct investments: Romania's case

The Romanian National Bank's statistics are backing up all the mentioned theories by showing a direct relation between the investments and the GDP growth rate. According to these statistics, from 2004 to 2008 the investments grew by 125%, which immediately transferred into a similar growth rate for the GDP (from 60 billion Euros to 140 billion). The growth trend is similar for the FDIs, as well. For instance in 2008, one

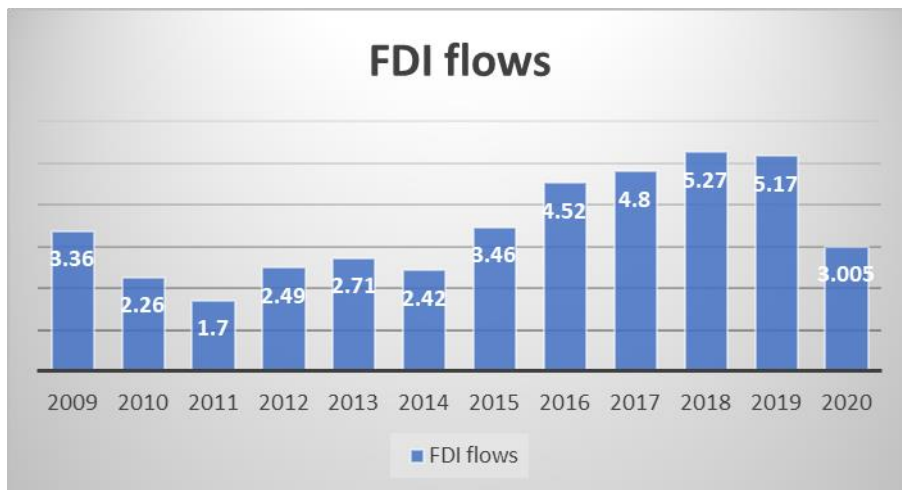
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year after Romania's integration within the European Union the economy recorded its best year in terms of received FDIs, totaling a flow of almost 9.5 billion Euros. Unfortunately, in 2009, the financial crisis hit and the majority of the foreign companies that were present in the economy reduced their activity and left the economy and few to none new investors were interested in entering in a developing economy. The flow's value dropped to 3 billion Euros, and continued to reduce until 2011, when it hit a record low value of 1.7 billion Euros, which was nine times less than 2008.

For the next years the Romanian economy was recovering from the economic crisis as it continued to receive FDIs, but unfortunately with a slow pace. Although 2010 was the year when, globally, the developed countries were not the countries of choice for foreign investors, as the developing countries were, Romania, unfortunately, was not one of those countries.

The best years in terms of FDI inflows, after financial crisis, can be considered 2018 and 2019, when the Romanian economy received 5.27 and 5.17, respectively billion Euros in foreign capital. Although the values are quite similar, there were fewer investments projects in 2019, compared with 2018 (78 to be more precise, compared with 113 in 2018), which follows the European trend where a 20% drop in investment was recorded.

Fig. 1. FDI Flows in Romania 2009-2020¹



When analyzing the FDI's geographical distribution, the biggest cities managed to attract the majority of foreign capital, Bucharest being the go to metropolis for the investors, as 50% of the entire capital was invested in the capital. The second most attractive city for investors was Timișoara that managed to attract 11.5% of the total investments, while the city of Iași, with its 3.8% come into third place. The important gap between the values of FDI flows recorded by the cities is a consequence of the underdeveloped infrastructure in those areas, which translates into additional costs for the investors.

¹ Source: Ernst&Young, National Bank of Romania.

In terms of country of origin for foreign capital that entered the Romanian economy, according to the National Bank of Romania's statistics, the Netherlands remained the biggest supplier of capital with 23.2%, followed by Austria with 12.6% and Germany with 12.3% of the total foreign capital.

Investments in pandemic

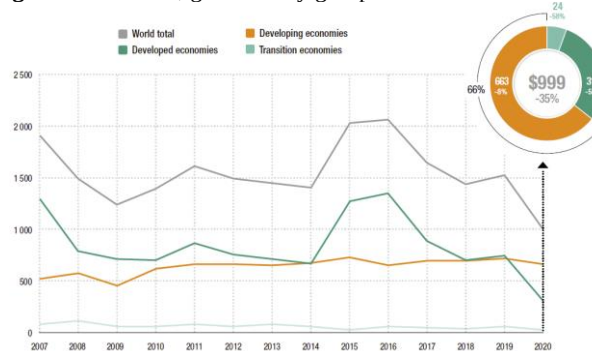
At the beginning of the year 2020, when the rumors about a virus that was spreading quite easily outside China's national territory, the forecasts for the FDI were also pessimistic, forecasting a 40% drop in the global flows, compared with 2019, to approximately 1 trillion US Dollars, which is similar to the FDI flows' value recorded in 2005. Unfortunately, those predictions really came true and due to the pandemic the multinational corporations were less and less attracted by investing abroad. All the health regulations the national governments had to enforce culminating with the lockdowns, made the foreign investors to reassess their priorities and thus a new concept called reshoring², was created. This basically translates into shortening the chain of production, bringing back home or closer to the country of origin the production facilities due to the unstable economic and political climate.

The biggest contraction in FDI inflows in 2020, was recorded by the developed countries, which received 58% less foreign capital than in 2019. The developing economies were less affected by the pandemic, as the flows lost only 8% of the 2019 value, but that is mainly due to the investments done in Asia. This situation allowed the developing economies to become the global champion of attracting foreign capital through the means of direct investments, as 66% of the multinational corporations (MNCs) chose to invest in these regions.

Compared with the global trend, 2020, in Romania was a year of contraction in terms of FDI flows, as only 3.005 billion Euros entered the economy in the form of foreign investments, so the drop was 41.9% compared with 2019. Although at the debut of the pandemic and during the lockdown most of the business outside the food industry or basic goods, decided to limit their activity for a period of time, most of the investments done in Romania were done in the financial and insurance sector. The industrial sector, was the second most desirable economic field for the investors. It is worth mentioning the fact that inside the sector, the flows' values for the automotive and IT&C sectors were quite similar, with a slight advantage for the car manufacturing sector.

In terms of geographical distribution of the FDIs, there were no surprises, as the Bucharest-Ilfov area, once again, managed to attract the majority of investments. Furthermore, the situation remains unchanged when analyzing the type of investment been made, meaning that 62.2% out of the greenfield investments made in Romania, were done in Bucharest. There were no changes about the origin of the foreign capital, as the Netherlands remained the biggest investor in Romania in terms of FDI stocks. Compared with the previous year, the second and third positions suffered a switch between Germany and Austria, as the latter recorded a lower value of FDI stock.

² Dan Badin – *“Criza generată de COVID-19 redesenează harta investițiilor. Unde se poate plasa România?”*.

Fig. 2. FDI Inflows, global and y group of economies 2007-2020³

In 2021, as the pandemic began to show signs of weakness, the states came out the lockdown scenarios and the economic activity was starting up, the global foreign direct investments, were on an upward trend. The recorded trend growth of 77% compared with the previous year translated into an estimated 1.65 trillion US dollars⁴, which surpassed the 2019 flow. Since the developed countries were the most affected ones by the pandemic and only 34% of the global flows entered these economies, in 2021 they made up for it as more than \$500 billion out of the \$780 billion, went into these economies. The developing economies also recorded an increase in FDI flows, of nearly 30% compared with 2020, which in absolute figures means almost \$870 billion. This performance can be mainly attributed to the Asian countries that managed to have the strongest recovery for the developing economies. Of course, a special mention has to be China, the developing economy that managed to record a 20% increase for inward flows, which corresponds to \$179 billion.

When analyzing the economic sectors that were the most desirable for the foreign investors, the renewable energy sector was the first choice in 2021 for capital investments and accounted for \$85.2 billion. Another sector that benefitted from more capital investment was the production of semi-conductors, most likely as a result of the recent crisis that affected multiple economic sectors across the globe.

Romania was also on the plus side in 2021, as more than 7 billion Euros entered the economy as FDI flow. This value corresponds to an increase of more than double, compared to the 2020 values.

Concerning the country of origin for the invested capital, the Netherlands, remain the most important investor, with 19.2% of the FDI stock, followed closely by Austria and Germany.

Conclusions

Although the global economy was highly affected by the COVID-19 outbreak and the vast majority of businesses had to be partially or totally shutdown, the first signs of a rebound could be seen as soon as the countries dropped the restrictions and different sectors of the economy began to gain momentum. The foreign direct investments plummeted to unprecedented values during the pandemic and only the

³ Source: UNCTAD – World Investment Report 2021.

⁴ According to UNCTAD.

food industry and basic goods producing companies ensured the global capital movement. But 2021 showed a strong comeback for the FDIs, in all country groups, of course with an advantage for the developed economies.

For the Romanian economy, the pandemic brought a massive drop in terms of foreign capital entering the economy. But not all was bad news, as the country's remarkable potential in the IT&C and retail sectors managed to ensure that the much needed foreign capital still found its way into the economy through investments. Now, that the pandemic is practically gone, the foreign investors will be coming back, but only if the government succeeds in implementing a series of measures that will increase the country's appeal. It is important to understand the fact that the market has changed, and so did the managers' expectations towards countries.

The Recovery and Resilience Facility, the financial tool that the European Union created for the member states to reduce the COVID-19 impact on the economies, represents an important opportunity for Romania to create more attractive incentive packages for the foreign investors. Moreover, the authorities have to make noticeable improvements in promoting the country as a viable option for FDIs, in developing the transportation infrastructure which will attract more foreign investors in different parts of the country in order to ensure a more balanced and sustainable development. This will also help the local business and it will ensure a more stable political climate with a more open attitude towards the foreign capital.

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